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C O N F I D E N T I A L SECTION 01 OF 02 BRASILIA 002146

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SUBJECT: SECRETARY SNOW'S AUGUST 1-3 MEETINGS IN BRAZIL -
TRADE THEMES

Classified By: Charge d'Affaires Patrick Linehan, reasons 1.5
(b) and (d)

1. (C) Summary: During his bilateral meetings in Brasilia and the Group for Growth (GfG) session in Rio de Janeiro, U.S. Treasury Secretary Snow emphasized the importance of trade liberalization to increasing productivity and economic growth. Brazilian and U.S. businesses which participated in a breakfast session of the GfG with the Secretary and Finance Minister Palocci likewise called for greater trade integration and a reenergizing of the Free Trade Area of the Americas (FTAA) negotiations. In their private meeting and then later with President Lula, Palocci emphasized the importance he places on increased trade as an engine for growth. Indeed, in the meeting with Lula, Palocci offered to head an effort to give new momentum to trade talks, particularly in the financial services area, in an apparent move to prod the Foreign Ministry into a more pro-active negotiating stance. Lula, however, demurred. End Summary.

2. (U) Background: Treasury Secretary Snow visited Brazil July 31 to August 3, 2005, to participate in the fourth session of the bilateral Group for Growth, an outgrowth of the 2003 Summit between Presidents Bush and Lula. Secretary Snow held bilateral meetings August 1 in Brasilia with Central Bank President Henrique Meirelles, Finance Minister Palocci and President Lula, in addition to meeting with Brazilian venture capitalists. In Rio de Janeiro on August 2, the Secretary participated in Group for Growth meetings (including a business breakfast), gave a speech sponsored by the Brazilian Council on Foreign Relations (CEBRI), and held a round-table discussion with representatives of the financial services sector. On August 3, in Vitoria, the capital of the Brazilian state of Espirito Santo, the Secretary emphasized the themes of private sector

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infrastructure investment and the importance of good governance in visits to the port of Tubarao and in a working lunch with Governor Hartung and local business. The Secretary concluded his stay in Vitoria with a visit to a

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favela (poor neighborhood) that benefited from an Inter-American Development Bank (IDB)-financed basic services project, aimed at providing running water, sewage hook-ups and paved streets. This cable reports on the trade-related portions of the discussions; macro-economic and financial will be reported septel.

Business Wants Trade Liberalization

3. (SBU) Business representatives urged a renewed focus on trade negotiations during the GfG August 2 breakfast, attended by the Secretary and Palocci. Benny Parnes (a former Central Bank director) of Banco BGM urged greater commercial integration between the U.S. and Brazil, specifically noting the advantages that Mexico obtained from NAFTA. Roger Agnelli of mining giant CVRD observed that Brazil and the U.S. have complementary economies that would stand to gain substantially from integration. Nelio Weiss of Price Waterhouse Coopers added that many of his Brazilian clients had just begun to invest in Central America in order to obtain greater access to the U.S. market under the recently-approved CAFTA.

Secretary Snow/Minister Palocci

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4. (C) During their bilateral meeting August 1, the Secretary noted the importance of trade liberalization for fostering growth. He declared that the recent U.S. congressional approval of CAFTA showed that the USG still could muster the political strength necessary to maintain a pro-free trade

policy. The USG wants, the Secretary said, to take that momentum both to the FTAA negotiations and the WTO Doha Round. With respect to the latter, he expressed disappointment that there had been limited response to the call for trade liberalization in the financial services arena.

15. (C) Palocci averred that conditions were ripe for a renewed liberalization push both in the WTO and FTAA contexts. President Lula, Palocci said, has an open vision on trade and the Secretary's visit could help renew momentum. Brazilian Ambassador to the U.S., Roberto Abdenur (who participated in most of the Secretary's meetings) restated the (well-worn) GoB position that it is ready to jump to four plus one (Mercosul-U.S.) market access negotiations given the current lack of progress on the FTAA.

Snow/Lula

16. (C) During the Secretary's meeting with President Lula, Palocci reported on the substance of their earlier meetings. Palocci argued again that conditions were ripe to restart the trade agenda and offered to spearhead a GoB interagency effort to rebuild momentum in trade negotiations, particularly in financial services. Lula did not respond specifically to Palocci's offer.

17. (C) Comment: Palocci's request for a presidential mandate to advance the trade agenda, which continues to be the exclusive domain of the foreign ministry, was likely motivated by a desire to find ways to spur productivity growth in the economy. With the microeconomic reform agenda completely stalled in the scandal-obsessed congress, pushing for trade liberalization is one of Palocci's few remaining reform options. That Lula did not oblige likely speaks in equal measure to Itamaraty's entrenched position and to Lula's distraction with the corruption scandal.

18. (U) This cable was cleared by Treasury.

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